

DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

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**RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS SHARON CHOWN TO INTERROGATORIES OF  
ADVERTISING MAIL MARKETING ASSOCIATION (AMMA/NAA-T1-1-3)**

January 22, 1998

The Newspaper Association of America hereby provides responses of witness Sharon Chown to the following interrogatories of Advertising Mail Marketing Association: AMMA/NAA-T1-1-3, filed on January 8, 1998.


Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

January 22, 1998

  
William B. Baker

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

AMMA/NAA-T1-1. In Line 6 of page 6 of your testimony you state that "Exhibit NAA-1B also shows the mix of functions used by each subclass."<sup>5/</sup> Footnote 5 reads:

"Page 1 of Exhibit NAA-1B summarizes the total attributable cost by function for each subclass of mail. Page 2 of Exhibit NAA-1B provides the percentage mix of the different functions used by each subclass of mail."

- a. Is it an accurate reformulation of these portions of your testimony to say that Exhibit NAA-1B also shows the mix of attributable costs of functions used by each subclass?
- b. If that statement is not correct, please explain why not.

Response:

- a. Yes. Exhibit NAA-1B shows the amount and the percentage of the attributable costs that are incurred to provide each of the functions used by each subclass.
- b. Not applicable.

AMMA/NAA-T1-2. Please confirm that your "metric" for assigning institutional costs to subclasses described in Part 5 of your testimony (page 13, line 18 to page 17, line 19) assumes that each subclass of mail "consumes" institutional costs associated with any function in proportion to its attributable costs for that function multiplied by the weighting factors set out on line 39 of your Exhibit NAA-1D.

- a. If you cannot confirm, please explain why.
- b. If you did confirm, does this imply that the consumption of attributable costs by a subclass of mail in any function causes that subclass of mail to consume institutional costs? Please explain any negative answer.
- c. If you responded to sub-part b in the affirmative, what evidence do you have of this relationship?

Response:

a. Not confirmed. First, I do not understand how a subclass of mail can "consume" institutional costs. Institutional costs are incurred by the Postal Service to provide service to mailers; these costs are not "consumed" by mailers. Second, my method does not assign the institutional costs associated with each function to subclasses in proportion to the attributable costs of that function. Rather, by weighting the attributable costs to reflect the relative mix of services used by each subclass, my method will provide the Commission with a better basis for evaluating the assignment of institutional costs.

- b. Not applicable.
- c. Not applicable.

AMMA/NAA-T1-3. In its Opinion in Docket No. R90-1 (at paragraph 4051 (pages IV-16-17)) the Commission said this about your proposal concerning institutional cost assignment in that proceeding:

"The difficulty Chown sees is a real one, but it is not solved by fragmenting the institutional costs and continuing to apply, in mechanical fashion, an essentially comparative technique to institutional cost assignment. This is so because the root of the problem is that when a subclass uses categories of attributable costs in an uncommon way -- either by using mostly a function whose costs are only very incompletely attributed, or by using mostly a function whose costs are completely attributed -- it is not fully (or fairly) comparable with other classes. Chown has tried to attack this problem with a more elaborate formula, but we think it calls not for more complex mechanical solutions but for the focused exercise of rational judgment."

- a. Do you believe that your proposal concerning the distribution of institutional costs in this docket is responsive to the Commission's criticism of your R90-1 proposal?
- b. If your answer is in the affirmative, please explain the basis for that belief.
- c. If your answer is in the negative, do you believe that the Commission was wrong in its earlier criticism and, if so, how?

Response:

Although the Commission may have understood my unbundled institutional cost proposal in Docket No. R90-1 to be a mechanical approach, that proposal need not and should not have been implemented in a mechanical fashion. Therefore, I believe that the Commission's criticism of my method in that proceeding may have been based on a misunderstanding. This misunderstanding could have stemmed from an example that I provided in my testimony in that proceeding in an attempt to illustrate my method. My example involved a mechanical application of the Postal Service's relative cost coverages to the attributable costs for each function to derive institutional cost

assignments. With respect to the example contained in my testimony in that proceeding, the Commission's criticism was indeed valid.

- a. & b. Yes. I do not mechanically apply any coverage factors in my recommended method. My proposal simply recommends an alternative metric to which the Commission can apply its rational judgment. By weighting the attributable costs to reflect the relative mix of services used, my method will provide the Commission with a better basis for evaluating the assignment of institutional costs and applying its rational judgment. Therefore, the weighting of the attributable costs in my metric addresses the Commission's concerns that the attributable costs for some subclasses of mail are "not fully (or fairly) comparable with other classes."
- c. Not applicable.

## DECLARATION

I, Sharon L. Chown, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to be "S. Chown", written over a horizontal line.

Date: 1/22/98